

Electronically Recorded

Official Public Records

Tarrant County Texas

2008 Dec 30 12:25 PM

Fee: \$ 24.00

D208467532

Submitter: SIMPLIFILE

3 Pages

Suzanne Henderson

NOTICE OF CONFIDENTIALITY RIGHTS: A NATURAL PERSON MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION BEFORE IT IS FILED IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

PAID-UP OIL AND GAS LEASE

THIS AGREEMENT is made this 17th day of October, 2008, between DRH Energy, Inc., Lessor, whose address is: 301 Commerce St., Suite 500, Fort Worth, Texas 76012, and Carrizo Oil & Gas, Inc., Lessee, whose address is: 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.

1. Lessor, in consideration of ten dollars and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, and operating for, producing and owning oil, gas, sulphur and all other hydrocarbons produced in association with oil and gas (collectively, "Hydrocarbons"). This Lease does not cover any minerals other than Hydrocarbons and Lessee shall have no right to use the land covered hereby for the disposal of saltwater or CO₂. The land covered hereby, herein called the "Leased Premises," is located in the County of Tarrant, State of Texas, and is described as follows:

16.179 acres, more or less, and being all of Lots 1 through 11 in Block 1; Lots 1 through 7 in Block 2; Lots 1 through 35 in Block 3; and Lots 1 through 28 in Block 4 of Pinehurst Meadows Addition, an Addition to the City of Arlington, Tarrant County, Texas, and more particularly described in that Mineral Deed dated November 24th, 2004 between D.R. Horton – Texas, LTD., a Texas limited partnership, as grantor and DRH Energy, INC, a Colorado corporation, as grantees and recorded as Document Number D204377407, of the Deed Records of Tarrant County, Texas. It is the intent of the Lessor and Lessee to cover and include in this Lease all of Lessor's interest in the streets within the Pinehurst Meadows Addition and the streets adjoining the Pinehurst Meadows Addition and Lessor confirms that it has been paid bonus on such streets.

Notwithstanding anything in this Lease to the contrary, Lessee and its successors and assigns, shall have no right to and shall not conduct any operations of any type on the surface of the Leased Premises nor have any access to the surface of the Leased Premises. However, Lessee shall have the right to develop the Leased Premises by pooling, as provided herein, or by directional or horizontal drilling commenced from a surface location on other lands in such manner that the path of the wellbore is under and through the Leased Premises and the bottom-hole or terminus is on the Leased Premises or lands pooled therewith. This clause shall take precedence over any references to surface operations contained in this Lease.

This Lease also covers and includes, in addition to that above described, all land, if any, contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by Lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which Lessor has a preference right of acquisition; provided that, at such time as Lessee becomes aware of such additional land it shall immediately pay to Lessor a bonus on such land in an amount per acre equal to the bonus paid on the inception of this Lease. Lessor agrees to execute any supplemental instrument requested by Lessee for a more complete or accurate description of Leased Premises. Except as provided above, for the purpose of determining the amount of any bonus or other payment hereunder, Leased Premises shall be deemed to contain 16.179 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this Lease and all rights and options hereunder.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this Lease shall remain in force for a term of three (3) years from the date hereof, hereinafter called "Primary Term," and as long thereafter as operations, as hereinafter defined, are conducted upon Leased Premises with no cessation for more than ninety (90) consecutive days.

3. As royalty, Lessee covenants and agrees: (a) to deliver to the credit of Lessor 23% of the total proceeds received by Lessee from the oil produced, saved and sold from the Leased Premises, (plus any available bonuses, premiums, severance tax or other such refunds); and (b) to pay Lessor on other Hydrocarbons produced, saved and sold from the Leased Premises 23% of the "Market Value" thereof. "Market Value" shall be determined at the delivery point of the first sale of the other Hydrocarbons by Lessee to a party unaffiliated with Lessee and shall be the price received by Lessee in an arms length, competitively negotiated sale of such other Hydrocarbons. Upstream of such delivery point, Lessor shall not be required to pay and Lessor's royalty shall not be reduced, directly or indirectly, on account of or charged with any post-production costs or charges or any other such costs of making the products produced hereunder ready or available for market including, but not limited to, the costs of transporting, gathering, compressing, dehydrating, processing, treating, separating, storing or marketing Hydrocarbons produced hereunder. Any royalties provided for in this paragraph 3 that are not paid by the end of the second month following the month of production to which they relate shall bear interest at a rate of 18% per annum. If Lessee fails to pay any royalties due as provided in this paragraph 3 and any interest accrued thereon by the end of the third month following the month of production to which they relate, Lessor may give written notice to Lessee stating that Lessee has failed to pay royalties that are due and payable under this Lease and that this Lease will terminate at Lessor's election unless such royalties and the interest accrued thereon are paid within thirty (30) days of Lessee's receipt of such notice. Such notice shall be directed to "Land Manager" at Lessee's most recent address provided to Lessor and shall be sent by Federal Express or other similar documented overnight delivery service. If Lessee fails to pay such royalties due and any interest accrued thereon within 30 days, this Lease shall at the election of Lessor immediately terminate and be of no further force and effect except for paragraph 10 which shall survive such termination. The rights of Lessor under this paragraph shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under Texas law, including V.T.C.A. NATURAL RESOURCES CODE §§ 91.401 through 91.405.

4. Lessee may at any time and from time to time, as to any one or more stratum or strata, pool and unitize the entirety of the Leased Premises, but not less than the entirety, with other land(s) or Lease(s) in the immediate vicinity of the Leased Premises in order to form, or from time to time re-form, either before or after operations are commenced, an oil or gas well or wells is completed, or production is obtained, a unit or units not to exceed 40 acres for oil and 640 acres for gas; each plus 10% tolerance, provided however, if units larger than the foregoing are permitted or prescribed by the rules or regulations of

the Railroad Commission of Texas, or other lawful authority having jurisdiction of such matters, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled or already drilled, then any such unit may be established or enlarged to conform to the size allowed by such rules or regulations. Notwithstanding anything to the contrary stated herein, a unit for a horizontal well may include (a) the amount of acreage allowed for obtaining a permit to drill a well under the spacing and density provisions in the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in Rule 86, or (b) the amount of acreage allowed for obtaining a full production allowable under the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in Rule 86. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the Lease is pooled or combined as to any other strata or stratum. No pooling or unitization shall be effective unless Lessee executes and places of record in the county in which the Leased Premises is located a written instrument or instruments designating the unit or units it has elected to form. Lessee shall promptly send to Lessor a true and correct copy of each recorded instrument. Each unit shall be effective as to all parties hereto, their heirs, successors and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Production or operations on any part of the pooled unit or units shall be treated for all purposes, except the payment of royalty, as production or operations on the Leased Premises. The entire acreage constituting such unit or units shall be treated, except for the payment of royalties on production from the pooled unit, as if it were included in this Lease. For the purpose of computing royalties to which owners of royalties and other payments out of production shall be entitled on production of Hydrocarbons from a pooled unit, there shall be allocated to the land covered by this Lease and included in said unit a pro rata portion of the Hydrocarbons produced from the unit after deducting that used for operations on the unit. Such allocation shall be on an acreage basis - that is, there shall be allocated to the acreage covered by this Lease and included in the pooled unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) that pro rata portion of the oil or gas produced from the unit which the number of surface acres covered by this Lease (or in each separate tract) and included in the unit bears to the total number of surface acres included in the unit. As used in this paragraph, "separate tract" means any tract with royalty ownership differing, now or hereafter, whether as to parties or amounts, from that as to any other part of the Lease Premises.

5. Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this Lease as to any part or all of Leased Premises or of any mineral or horizon thereunder, and thereby be relieved of all obligations accruing thereafter, as to the released acreage or interest.

6. Whenever used in this Lease the word "operations" shall mean production of Hydrocarbons in paying quantities or any of the following: drilling operations, testing, completing, reworking, recompleting, deepening, sidetracking, plugging back or repairing of a well in search for or in an endeavor to obtain production of Hydrocarbons in paying quantities.

7. The rights of Lessee under this Lease may not be assigned in whole or in part without the prior written consent of Lessor, which consent shall not be unreasonably withheld. However, notwithstanding the foregoing sentence, Lessee shall not be required to obtain Lessor's prior written consent for assignments of overriding royalty interests, assignments associated with financing or lending documents and/or agreements, or assignments from Lessee to Marsh Operating Company or their internal partners. If the Lease is assigned, the provisions hereof shall extend to and be binding upon Lessor and Lessee and their respective heirs, legal representatives, successors and assigns, but no change or division in the ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations, or diminish the rights of Lessee. No sale or assignment by Lessor shall bind Lessee until thirty (30) days after Lessee shall have been furnished with a copy of the recorded instrument, or the original instrument in writing, evidencing such sale or assignments.

8. Lessor makes no warranty of title to the Leased Premises and hereby negates any implied warranty of title to the Leased Premises. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on Leased Premises existing prior to the date of this Lease, but Lessor agrees that Lessee shall have the right at any time to pay or reduce same for Lessor, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to Lessor and/or assigns under this Lease. If this Lease covers a less interest in the Hydrocarbons in all or any part of Leased Premises than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties and other moneys accruing from any part as to which this Lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this Lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this Lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. This Lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor. Lessee must obtain pooling authority from the owners of any non-executive interests, including non-participating royalty interests, in the mineral estate in the Leased Premises. If lessee fails to do so, Lessee shall bear such non-executive owners' share of production out of Lessee's share of production and it shall not be deducted from the Lessor's share of production.

9. Notwithstanding anything to the contrary contained in this Lease, this Lease shall expire and terminate one year after the end of the Primary Term as to all depths 100 feet below the base of the deepest producing formation on the Leased Premises or land with which Leased Premises has been pooled during the Primary Term.

10. **LESSEE AGREES TO RELEASE, INDEMNIFY, PROTECT, DEFEND AND HOLD HARMLESS LESSOR AND ITS SUCCESSORS AND ASSIGNS AND ITS AND THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, REPRESENTATIVES AND CONTRACTORS (COLLECTIVELY, "LESSOR GROUP") FROM AND AGAINST ANY AND ALL CLAIMS, LOSSES, OBLIGATIONS, DAMAGES, LIABILITIES AND EXPENSES, INCLUDING COURT COSTS AND ATTORNEY'S FEES (COLLECTIVELY, "CLAIMS") RELATING TO, ARISING FROM OR RESULTING FROM LESSEE'S OPERATIONS ON THE LEASED PREMISES INCLUDING, BUT NOT LIMITED TO CLAIMS ARISING OUT OF OR RELATING TO THE SOLE, JOINT OR CONCURRENT NEGLIGENCE OR STRICT LIABILITY OF THE LESSOR GROUP.**

11. Lessee agrees from time to time to furnish to Lessor, or to its authorized representatives, upon written request of Lessor, on a timely basis full and complete nonproprietary information hereafter acquired by Lessee with respect to all operations on the Leased Premises and from any unit including the Leased Premises and the production of Hydrocarbons therefrom, including but not limited to daily drilling reports, samples of all cores, results of drill stems and electrical logs, production sales contracts, regulatory filings and such other information as may be necessary for Lessor to verify Lessee's

performance of its obligations under this Lease.

12. If, at the end of the Primary Term, or at any time or times thereafter, there is located on the Leased Premises, or on land pooled therewith, a well capable of producing gas in paying quantities, but the gas is not being sold, and this Lease is not being otherwise maintained in force, Lessee shall pay by check or draft of Lessee to the Lessor at the address provided above, as royalty, at annual intervals, a sum of \$50.00 per net mineral acre to the parties who at the time of such payment would be entitled to receive royalties hereunder and if such payment is properly and timely made, it will be considered that gas is being produced from the Leased Premises in paying quantities during any period for which such payment is made. In the event Lessee elects to maintain this Lease in force and effect by the payment of shut-in gas royalty as herein provided, the first of such payments shall be made no later than ninety (90) days after the date the well is shut-in or the Lease is not otherwise maintained, whichever is later, and subsequent payments will be due annually thereafter (if this Lease is not being otherwise maintained in force) on the anniversary date of the period for which the prior payment was made. This Lease may not be maintained in force by the payment of shut-in royalty for any one shut in period of more than two (2) years, or separate periods during which times all wells are actually and physically shut in aggregating three (3) years, during a 10 year period.

13. Regulation and Delay. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. Lessor hereby agrees that, in the event Lessee deems it necessary to seek a variance, waiver or other relief from any laws, rules, regulations, or orders (which for purposes of this paragraph shall include any ordinance) or other such authority exercised by, (i.) the City of Arlington, including but not limited to the well setback distance for gas drilling and production, or (ii.) by any other governmental entity or authority having jurisdiction, then Lessor shall engage in reasonable acts and execute and deliver such instruments and documents Lessee deems necessary or convenient in seeking such relief. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, completion, production or other operations are so prevented or delayed.

14. Both parties agree that a Memorandum of Lease will be filed of record in the county in which the Leased Premises is located, designating the Primary Term and legal description. Duplicate copies of this lease are in the possession of Lessor and Lessee where the same may be examined by any person having a lawful right or legitimate interest therein

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

DRH Energy, Inc., a Colorado corporation

Robert M. Karnes
By: Robert M. Karnes, as Asst. Sec.

ACKNOWLEDGMENT

STATE OF TEXAS }
 } ss.
COUNTY OF TARRANT }

This instrument was acknowledged before me on the 10th day of November, 2008, by Robert M. Karnes, as Asst. Sec. of DRH Energy, Inc., a Colorado corporation, on behalf of said corporation.

Signature Laurel L. Barry
Notary Public
Printed Laurel L. Barry

My commission expires: 5-17-2009

Seal:

